



CITY OF SANTA BARBARA

JOINT COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: March 30, 2010

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Fiscal Year 2010 Budget Balancing And Adjustments

RECOMMENDATION:

- A. That Council hear a report from staff, as a follow up to the special budget work session held on February 25, 2010, to continue the discussion of recommended measures to help offset projected General Fund revenue shortfalls in Fiscal Year 2010;
- B. That Council approve the transfer of \$480,000 from the Self-Insurance Fund to the General Fund representing charges allocated to the General Fund above amounts needed to fund the General Fund's portion of the Fiscal Year 2010 workers' compensation and liability programs based on an analysis of claims paid to date;
- C. That Council approve the transfer of \$440,000 from the Solid Waste Fund to the General Fund representing unrestricted funds intended to reimburse the City's General Fund for the use of the City's public right-of-way; and
- D. That the Redevelopment Agency Board allocate and authorize the expenditure of up to \$480,000 from the Agency's Project Contingency Account to fund the required relocation lease costs of the Fire Department's Administrative Staff due to the Agency-funded Fire Station No. 1 Annex Renovation Project.

EXECUTIVE SUMMARY:

At a special budget work session held on February 25, 2010, staff presented a list of measures to address the projected Fiscal Year 2010 budget shortfall of \$3.7 million. The measures totaled \$2.7 million, leaving a balance of almost \$1 million unresolved.

Included in the list of measures was the suspension of overtime in the Fire Department, which Council asked staff to bring back within 30 days to allow staff to work with the Firefighters Association on alternative proposals. However, in light of other measures identified for balancing the General Fund, as discussed below, staff recommends we not implement this measure this fiscal year. However, staff will continue to evaluate this option for Fiscal Year 2011.

Since the February meeting, staff has identified other measures that we recommend be implemented to further reduce the outstanding budget shortfall. In addition, we have identified other potential measures that we recommend Council consider and implemented to the extent necessary to close the remaining gap. However, we recommend waiting to implement these other options until the end of the fiscal year when we will know the actual remaining gap, at which time we would return to Council with final recommendations for balancing the General Fund.

In addition to the newly identified measures, staff has refined its revenue projections for Fiscal Year 2010 based on new data received. As a result, staff anticipates certain tax and other non-departmental revenues will do better than what was presented at the February meeting by approximately \$300,000, reducing the scope of current year projected shortfall.

The table below summarizes the scope of the problem for Fiscal Year 2010, as adjusted for the removal of the Fire overtime option and additional revenue projections, as well as the newly identified recommendations and other potential options for reducing the shortfall.

Originally Projected FY 2010 Shortfall	\$ 3,712,357
Measures Presented February 25, 2010	(2,770,466)
Add Back Fire Overtime Measure	489,300
Refinements to Revenue Projections	<u>(300,000)</u>
Remaining Shortfall, As Adjusted	1,131,191
Newly Identified Recommendations:	
Additional Use of Self-Insurance Fund Surpluses	(480,000)
Shifting Solid Waste Franchise Fees to General Fund	<u>(440,000)</u>
Remaining Projected Shortfall	<u><u>\$ 211,191</u></u>
Other Potential Measures:	
Use of RDA Funds for Downtown Parking Capital	\$ 312,621
Use of Unrestricted UUT from Streets Fund	<u>150,000</u>
Total Other Potential Options	<u><u>\$ 462,621</u></u>

DISCUSSION:

On Thursday, February 25, 2010, a special meeting of the City Council was held to hear a report from staff on the projected budget gaps for both Fiscal Years 2010 and 2011. For Fiscal Year 2010, the projected deficit presented at that meeting was approximately \$3.7 million, caused by projected revenue shortfalls of approximately \$2.3 million and budgeted year-end expenditure savings of approximately \$1.4 million that are not expected to be realized.

At the February 25 meeting, staff identified a number of recommended measures totaling approximately \$2.7 million that would offset all but almost \$1 million of the projected year-end shortfall. These measures included:

Keeping Additional Positions Vacant Through June	\$ 609,648
Additional Savings from Police Vacancies through June	435,561
Reducing Overtime in the Fire Department	489,300
Reducing Parks & Recreation Capital Projects	268,722
Rebate from Workers' Compensation Program	600,000
Lease Costs on Fire Station Annex Paid by RDA	171,379
Other Departmental Reductions	<u>195,856</u>

Total Measures Proposed	<u>\$2,770,466</u>
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As shown above, one of these measures was the reduction in overtime costs by not backfilling up to three fire engine personnel in the Fire Department that would have saved an estimated \$489,300. At the February meeting, Council asked staff to work with the Firefighter's Association to develop alternative proposals to reduce costs, and then to report back to Council within 30 days. However, given the other measures identified, staff now recommends taking this item off the list of measures for this year, but keeping it open as a potential measure for Fiscal Year 2011.

Another proposed measure presented in February is the payment of lease costs by the Redevelopment Agency in connection with the renovation of Fire Station No. 1 and the Fire Station Annex. However, this item was not called out separately in the report and requires Council and Agency Board to appropriate the funds to cover the costs. Therefore, it is discussed in detail in the following paragraphs.

One of the projects approved by the Agency Board on September 29, 2009 was the Fire Station No. 1 Annex Renovation Project (Project). The Project will renovate the former muffler shop at 925 Chapala Street into the headquarters for Fire Department Administration and house approximately 16 full-time staff. This Agency-sponsored project and its predecessor, the Fire Station No. 1 Renovation Project, have required Fire Department administrative staff to be relocated and lease space at 925 De La Vina at a cost of approximately \$20,000 per month. The lease is a Project cost and, as such, is the Agency's financial responsibility for the duration of approximately 24 months (October 2009 to September 2011). The total lease costs of approximately \$480,000 were not considered as part of the Project's design contract approved on December 8, 2009 and would have been paid by the General Fund. The lease costs in Fiscal Year 2010 total \$171,379.

Agency staff recommends that the Agency Board appropriate and authorize the expenditure of up to \$480,000 from the Agency's Project Contingency Account to fund the required relocation lease rate. The lease costs will be accounted for separately from the Fire Station No. 1 Annex Renovation Project's construction costs. The current

balance in the Agency's Project Contingency Account is approximately \$1,600,000 and as such, adequate funds exist to fund the request.

Recommended Measures for Addressing Fiscal Year 2010 Revenue Shortfall

Staff has identified, and recommends Council approval of, two new measures representing \$920,000 in additional revenues to the General Fund. The two measures are the transfer of \$480,000 in funds from the Self-Insurance Fund and the transfer of \$440,000 in franchise fees collected in the Solid Waste Fund to the General Fund. Each is discussed below.

Additional Use of Self-Insurance Fund Projected Year-End Surplus

In the list of proposed measures presented to Council in February, staff identified the use of \$600,000 from the Self-Insurance Fund reserves. The reserves represent accumulated surpluses through June 30, 2009 generated as a result of better than projected claims results in the workers' compensation and liability program.

More recently, we have completed an analysis of the current fiscal year and determined that we will likely end the year with an additional surplus of approximately \$736,000. Of this portion, approximately \$480,000 is attributable to the General Fund, with the balance attributable to enterprise funds. The \$480,000 could be used this year.

Shifting Solid Waste Franchise Fees to the General Fund

The Solid Waste Fund currently receives a 2% franchise fee charged to the City's two contract haulers, Allied Waste and MarBorg Industries. In general, franchise fees are designed to compensate/reimburse the local government for the franchisee's use of the public right-of-way. As such, the revenues are unrestricted.

However, since the City's creation of a separate Solid Waste Fund, the franchise fees have gone into that fund to support recycling and other waste diversion efforts. For the current fiscal year, revenues from solid waste franchise fees are projected to reach approximately \$440,000 by year-end. These revenues could be shifted to the General Fund both this year as well as on an ongoing basis.

The loss of \$440,000 would have an impact on the Solid Waste Fund. However, the Solid Waste Fund has accumulated approximately \$1.7 million in undesignated reserves, more than staff would recommend for this type of fund. In addition, over the next several years, commodity values of recyclables are expected to recover and generate an increasing amount of revenues relative to the Fiscal Year 2011 projections.

If Council approves shifting solid waste franchise fees to the General Fund, staff will manage the loss of these revenues through the use of Solid Waste Fund reserves until they reach a more appropriate level. By then, we expect recycling revenues will have grown to offset most if not all of the loss of franchise fee revenues.

Other Potential Options

Use of Unrestricted Utility Users' Tax Revenues

Staff was asked by Council to determine whether any savings could be realized from the portion of the Streets Capital Program funded from unrestricted utility users' tax revenues. Any savings could then be used, if approved by Council, to help offset any remaining deficit in Fiscal Year 2010.

Unfortunately, the revenues used to finance the Streets Capital Program have also been impacted by current economic conditions and, accordingly, are projected to fall approximately \$1 million short of budget. The affected revenues primarily include Transportation Sales Tax (Measure D), UUT and Gas Tax. Staff has identified expenditure savings in the Streets operating budget to offset a portion of the revenue shortfall; however, the balance will have to be addressed by holding back on projects currently budgeted in the capital program.

As a result, it may require further reductions to capital spending, such as terminating projects that have already begun the planning and design phases, in order to free up any UUT revenues that could be transferred to the General Fund. At this point, we estimate only approximately \$150,000 in UUT revenues could be freed up this fiscal year. However, staff will continue to evaluate this option and will determine to what extent this measure could be used to balance the projected deficits in Fiscal Year 2011.

Allocating Remaining Costs for State Street Sidewalk Maintenance to Downtown Parking

Another possible measure for Council's consideration involves utilizing Redevelopment Agency funds to pay for a portion of the Downtown Parking Fund's Fiscal Year 2010 capital program. This would then allow for the Downtown Parking Fund to pay the full cost of the contract with the Downtown Organization for the maintenance of State Street Sidewalks.

The Downtown Parking Fund currently pays \$312,621 (50%) of the total \$625,242 contract for the maintenance of State Street sidewalks coordinated by the Downtown Organization. The other half of the cost is paid by the General Fund, Parks & Recreation Department. By utilizing Agency funds to pay for up to \$312,621 of the Downtown Parking Fund's capital program, this would generate savings that could then be used by Downtown Parking to cover the General Fund's portion of the State Street sidewalk maintenance contract, thereby generating an equal amount of savings to the General Fund. There would be no financial impact to the Downtown Parking Fund.

The projects that could be funded from the Agency are:

Revenue Control Equipment and Kiosk	\$ 271,324
Lots 4 & 5 Circulation and ADA Improvements	<u>41,297</u>
Total	<u>\$ 312,621</u>

Increased Revenue Projections

Staff is continually evaluating revenue projections as new data comes in. While these are just projections and could change by year-end, we have revised our year-end projections from those developed in January and presented to Council in February. Specifically, we have revised the following revenue projections, which in total reduce the latest projected shortfall by over \$300,000.

	<u>January Projections</u>	<u>March Projections</u>	<u>Increase (Decrease)</u>
Transient Occupancy Taxes	\$ 10,896,464	\$ 11,157,000	\$ 260,536
Utility Users' Taxes	6,710,407	6,857,000	146,593
Franchise Fees	2,907,583	2,916,800	9,217
Business License Taxes	<u>2,273,300</u>	<u>2,168,000</u>	<u>(105,300)</u>
Totals	<u>\$ 22,787,754</u>	<u>\$ 23,098,800</u>	<u>\$ 311,046</u>

Staff does not recommend revising the budget for these updated projections at this point. These projections will continue to be monitored over the next several months. Certainly, if these latest projections are accurate, the \$311,046 would help reduce any remaining shortfalls by year end.

SUBMITTED BY: Robert Samario, Interim Finance Director

APPROVED BY: City Administrator's Office